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PP RUEHWEB

DE RUEHNC #0781/01 1441529  
ZNY CCCCC ZZH  
P 241529Z MAY 06  
FM AMEMBASSY NICOSIA  
TO RUEHC/SECSTATE WASHDC PRIORITY 6079  
INFO RUEHAK/AMEMBASSY ANKARA PRIORITY 4648  
RUEHTH/AMEMBASSY ATHENS PRIORITY 3596  
RUEHHE/AMEMBASSY HELSINKI PRIORITY 0357  
RUEHLO/AMEMBASSY LONDON PRIORITY 1195  
RUEHVI/AMEMBASSY VIENNA PRIORITY 0473  
RUEHBS/USEU BRUSSELS PRIORITY

C O N F I D E N T I A L NICOSIA 000781

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E.O. 12958: DECL: 05/24/2016  
TAGS: EAID PREL PGOV EUN CY  
SUBJECT: EU OFFICIAL BRIEFS ON TURKISH CYPRIOT ASSISTANCE  
PLANS

Classified By: Ambassador Ronald Schlicher; reasons 1.4 (b)  
and (d).

¶1. (C) Summary: The European Commission is going forward with plans to implement the delivery of 259 million Euro of assistance to the Turkish Cypriot community over the next three years. DG Enlargement's Technical Assistance and Information Exchange Unit (TAIEX) will begin work immediately and could send a permanent official to an office in the north before the June 25 Turkish Cypriot municipal elections. Plans for the first tranche of 38.5 million Euro have also been distributed to the EU Member States for their approval at the June 30 PHARE Management Committee meeting. If approved, most programs would begin in January 2007. Plans for a much larger second tranche are expected to be considered at PHARE meetings this fall.

¶2. (C) DG Enlargement will manage the assistance program and is currently recruiting as many as 20 international staff, who will begin arriving in Cyprus in early September. While the main office will be in the same building as the EU Representation in Cyprus (i.e., in the Greek Cypriot south), the head of the program will report directly to Brussels and will have a "project office" in the north, where most employees will work. Commission officials admit that they have yet to work out many thorny issues resulting from the many GoC redlines, the non-recognition of the Turkish Cypriot authorities, and the abundance of property in the north owned by Greek Cypriots displaced in 1974. End summary.

¶3. (SBU) DG Enlargement Turkish Cypriot Community (TCC) Task Force official Andrea Batista briefed us May 22 on the latest thinking regarding the EU's assistance plans for the area administered by Turkish Cypriots. On February 27, 2006 the EU approved Council Regulation 389/2006 making 139 million Euro available to support economic development in the Turkish Cypriot community. In April, the Member States approved at the working level (in COREPER) the use of an additional 120 million Euro for this purpose, bringing the total in line with the European Commission's original recommendation of 259 million Euro. The additional 120 million Euro, however, is still subject to formal political (i.e., Council) approval.

¶4. (SBU) This new money supplements an earlier EU aid program for the north. In 2003, the EU approved an assistance package for the Turkish Cypriots of 12 million Euro, which was administered primarily through the UNDP Partnership for the Future (PFF). This included infrastructure projects in the three major Turkish Cypriot municipalities (Nicosia, Famagusta, and Kyrenia), a modest business-support program, and a demining effort. A small part of the 12 million was

also used by DG Enlargement's Technical Assistance and Information Exchange Unit (TAIEX) to help bring the Turkish Cypriots closer to the EU by providing information and training related to the EU's body of law known as the *acquis communautaire*. This program, however, expires in June 2006 and almost all of the 12 million Euro has been spent.

¶15. (SBU) For the 138 million Euro, a new provision was inserted in the regulatory document. Any project over 5 million Euro or that may impact property owned by Greek Cypriots displaced in 1974 must be submitted to the EU's PHARE Management Committee at least two months in advance and be approved by PHARE before it can begin. PHARE, which formally stands for "Poland-Hungary Assistance for Restructuring their Economies," was formed in 1989 to oversee EU aid to Poland and Hungary, but quickly expanded to include assistance to all of Eastern Europe, the Balkans, and the former Soviet Union. The PHARE Management Committee consists of one representative of each of the 25 EU Member States, including Cyprus. Formally, decisions are made by qualified majority vote, meaning no one country has a veto. In practice, however, most decisions are made by consensus.

¶16. (C) According to Batista, the new assistance will be administered through three mechanisms. A little less than 5 million Euros (thus avoiding the need for PHARE approval) will be given to TAIEX, allowing it to begin action immediately. A TAIEX official from Brussels could be on the ground even before the June 25 Turkish Cypriot municipal elections, assuming Turkish Cypriot approval. The private German company GTZ, which has been contracted to provide TAIEX with logistical support world-wide, will establish an office in its own name in the north, which will house the TAIEX official and several local staff.

¶17. (C) Batista reported that another 9.5 million Euro will be provided to the EU-funded UNDP-PFF program to continue its work. (Note: Batista was not sure if this required PHARE approval, but we note that it is included in the TCC Task Force's first submission to PHARE). Specifically, the new money would go toward upgrading of urban and rural infrastructure (including modernization of water and sanitation systems, and development of youth and cultural centers) and supporting private-sector development.

¶18. (C) According to Batista, however, the bulk of the aid will be administered by DG Enlargement's TCC Task Force. (Earlier suggestions that this role might be fulfilled by the European Agency for Reconstruction have been rejected.) The TCC Task Force is currently recruiting in Brussels as many as 20 new international staff for this purpose, the first of whom should arrive in Cyprus in early September. The Task Force's main office will be in the south in the same building as the EU Representation office. Only two or three officials will work there, while the rest will work in a "project office" in the north. So far, 10 potential sites with clear Turkish Cypriot titles have been located in north Nicosia, including one in the same building as the U.S. "North Office."

¶19. (C) Late last month, the Task Force submitted to the Member States its plans for the first tranche of 38.1 million Euro for their consideration. The plan, which is very general and does not mention specific Greek Cypriot property which may be affected, will be formally discussed at the June 30 PHARE committee meeting. Assuming PHARE approves the plan, the Task Force will put its various projects out to bid, a process which should last six months. Thus, implementation of the plan could begin as early as January 2007 and will last through July 31, 2009. The plan consists of:

-- 21.2 million Euro for a solid-waste sector program, including the creation of a waste-management plant, installation of a medical-waste treatment facility and rehabilitation of garbage dumps, including the Dikmen site, which has become an ecological disaster.

-- 900,000 Euro for a feasibility study on the rehabilitation of the Lefke mining area. (Note: The Lefke Copper Mine, which belonged to the U.S. Cyprus Mining Corporation, was forcibly expropriated by the Turkish military in 1974 and subsequently "leased" to European mining interests, which conducted activities virtually without oversight or regulation. End note.)

-- 5 million Euro for upgrading the management of the energy sector. This will include installation of metering systems, reactive energy-compensation devices, and a Supervisory Control and Data Acquisition System (SCADA).

-- 1.5 million Euro for dissemination of information on the European Union political and legal order.

-- the remaining 9.5 million is for promoting economic and social development through the UNDP-PFF (see above).

¶10. (C) Batista noted that the TCC Task Force is preparing plans for the remaining funds (i.e., the 101.5 million plus the expected additional 120 million Euro) and plans to submit this in time for consideration at the PHARE Management Committee's meeting in either September or October. The contracting process for the various programs in the second tranche would also take around six months, suggesting that these as yet unspecified projects could begin as early as spring 2007.

¶11. (C) Batista reported that the European Commission was stressing to both Turkish and Greek Cypriots that this aid project will be run by the Commission out of Brussels. The head of the TCC Task Force in Nicosia will report directly to the newly appointed Task Force head, Andrew Rasbash, who formally replaced Leopold Maurer earlier this spring, and not the Greek Cypriot head of Delegation, Themis Themistocleous.

¶12. (C) Batista noted that the Task Force expected the GoC to use its EU membership to aggressively protect what it perceived as its interests, and the Turkish Cypriot authorities to be very sensitive to any appearance of GoC influence over the program. Thus, many thorny issues remained unresolved and would be dealt with only as they

arose. For now, the Commission was concentrating on identifying the location of offices (both sides are demanding the main office be in their community). On which banks could be used to transfer funds connected with the program, Batista thought that the EC would be able to work with any bank that was internationally-recognized. Thus, branches of Turkish banks could be used. Similarly, the Task Force's intent is to leave it up to its contractors whether to ship goods in through Turkish Cypriot or Greek Cypriot ports. Batista noted that a Finnish company that won a Turkish Cypriot energy contract for four 15 kw turbines would be shipping the turbines to Famagusta during the Finnish EU presidency.

¶13. (C) Comment: Like the U.S. funded bi-communal and economic development programs (ACT and CyPEG, respectively), the EU assistance will increase the likelihood of the reunification of the island. A more prosperous, better-trained Turkish Cypriot community aligned with EU standards and practices will make any future settlement more workable. It will also lower the perceived costs the Greek Cypriot community will have to bear to finance any settlement. In the short term, however, the EU assistance may actually increase tensions between the two communities as issues surrounding the implementation of the aid program, such as location of offices, use of banks, etc., become battles in the overall war. While we navigate these waters every day in running our programs, the EU -- with the GoC serving in its decision-making structures -- may lack the flexibility needed to avoid the rocky shoals. End comment.

SCHLICHER